

# Rate Setting Framework - Decisions Affecting Revenue Requirement - DRAFT

(Other decisions affect cost allocation and rate design)

**TABLE I: MAIN ELEMENTS OF REVENUE REQUIREMENT FORMULA UNDER CURRENT FINANCIAL POLICY** (2006 Example – in \$MM)

(1)	(2)	(3)	(4)	(5)	(6)
purchased Power Costs	PLUS: operating expenses and taxes	PLUS: debt service	LESS: net misc. inflows and outflows	LESS: net wholesale power revenue (assuming worst results expected in one out of 20 years)	EQUALS: retail revenue requirement
\$283 MM	\$215	\$136.5	(\$31)	(\$27.5)	\$576
current cost of power acquired under long term contracts (BPA, State Line, etc.)	costs of all utility operations – other than capital – plus taxes	required interest and principal repayments	includes revenue from customers for hook-ups etc., plus investment income, less reserve deposits and other misc. funds required	reflects volatility of wholesale revenue due to variance in water conditions, market prices, and retail load	set such that there is a 95% statistical confidence that \$576 MM will be sufficient to cover net current obligations – expect deficit 1 year in 20, surplus 19 years in 20

\*/ Also includes offsetting adjustment for load-driven variance in retail revenue.

**TABLE II: IMPACT OF REVENUE REQUIREMENT FORMULA ON CAPITAL FINANCING AND DEBT SERVICE COVERAGE**

	(A) Retail Revenue Requirement	(B) Net Wholesale Power Revenue*/	(C) Net Current Obligations (1+2+3-4 from Table Above)	(D) Total Capital Requirements	(E) Current Revenue Available for Capital (A+B-C)	(F) Percentage of Current Revenue Financing of Capital	(G) Customer/ Other Funds for Capital	(H) Debt Required to Fund Capital (D-E-G)	(I) Debt Service Coverage
Wholesale revenue based on historical water, and projected market and load conditions would be this low or lower:									
1 in 20 years	\$576	\$27.5	(\$603.5)	(\$178.9)	\$0	0%	\$32	\$146.9	<b>1.35:1</b>
7 in 21 years	\$576	\$96.7	(\$603.5)	(\$178.9)	\$69.2	39%	\$32	\$77.7	<b>1.86:1</b>
Wholesale revenue based on average historical water (1928-2003), and projected market and load conditions would be:									
	\$576	\$133.3	(\$603.5)	(\$178.9)	\$105.4	59%	\$32	\$41.5	<b>2.12:1</b>
Wholesale revenue based on historical water, and projected market and load conditions would be this high or higher:									
7 in 21 years	\$576	\$145.1	(\$603.5)	(\$178.9)	\$117.6	66%	\$32	\$29.3	<b>2.21:1</b>
1 in 20 years	\$576	\$235.2	(\$603.5)	(\$178.9)	\$207.7	82%	\$32	(\$60.8)*	<b>2.87:1</b>

\*outstanding debt would be paid off from additional available revenues

**TABLE III: POTENTIAL DECISIONS AFFECTING REVENUE REQUIREMENTS – SHORT-TERM AND LONG-TERM – DRAFT**

	(1) <b>Purchased Power Costs</b>  \$283 MM	(2) <b>Operating Expenses and Taxes</b>  \$215 MM	(3) <b>Debt Service</b>  \$136.5 MM	(4) <b>Net Misc. Inflows and Outflows</b>  (\$31 MM)	(5) <b>Net Wholesale Power Revenue</b> (assuming worst results expected in one out of 20 years) (\$27.5 MM)
<b>Potential Decisions Affecting 2005-06 Revenue Requirements:</b>	none – contracts locked in for 2005-06	little – budget approved for 2005, endorsed for 2006	none	<ul style="list-style-type: none"> <li>• substitute insurance for bond reserve (save \$4 MM in 2006)</li> <li>• change financial policy on contingency reserve (\$5.5 MM in 2006)</li> </ul>	<ul style="list-style-type: none"> <li>• revise assumptions used in model to calculate worst results expected in one out of 20 years</li> <li>• revise wholesale market predictions or historical model used</li> <li>• change financial policies</li> </ul>
<b>Potential Decisions Affecting Future Revenue Requirements:</b>	integrated resources planning – for assuring that resource portfolio is appropriate for future energy needs at reasonable cost and risk	<ul style="list-style-type: none"> <li>• efficiency improvement</li> <li>• asset management</li> <li>• balance lower rate goals against customer service levels and costs of appropriate public interest initiatives</li> </ul>	manage level of long-term debt change mix of variable/fixed-rate debt	<ul style="list-style-type: none"> <li>• substitute insurance for bond reserve</li> <li>• manage financial impact of major City projects (e.g., Viaduct)</li> <li>• expand sales of ancillary services</li> <li>• change financial policy on contingency reserve</li> </ul>	<ul style="list-style-type: none"> <li>• improve power marketing efficiency and risk management processes</li> <li>• optimize use of existing power resources in the IRP process</li> </ul>